

Strategic Relationship between Skill Investment and FDI

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Abstract

We investigate the effect of investment to management skill which improves productivity efficiency of the subsidiary on overseas strategies of a firm. A firm serves the foreign market via export or foreign direct investment (FDI) thorough Cournot competition with a foreign firm. Since a firm needs a higher operational skill of a manager to reap a greater benefit from foreign production, firm's strategy depends on skill level of a labor as a manager candidate. We show the strategic relationship between a labor and a firm and derive the skill investment level and firm's strategy in the equilibrium. When the marginal cost in home country is medium level, the firm can extract the higher investment level from the labor to serve via FDI.

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